

UNITED STATES DEPARTMENT OF AGRICULTURE
Bureau of Agricultural Economics
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THE COTTON SITUATION

Summary

The world consumption of raw cotton, both actual and adjusted for seasonal variation, appears to have shown some decline between December and January largely because of reduced mill activity in a number of European countries and in Japan, according to the Bureau of Agricultural Economics. In the United States, cotton consumption was about the same in January as in December. There was apparently little if any significant increase in any important foreign cotton consuming country in January over December, although in India cotton consumption is reported to have continued at new high levels.

During the first 6 months of the current (1937-38) season, 3,085,000 bales of raw cotton was consumed in the United States. This is at an annual rate of 6,170,000 bales, or 22 percent less than the 7,950,000 bales consumed last season. Furthermore, in December and January the annual rate of domestic consumption was much less than the average for the first half of the season. Although domestic mill activity apparently increased somewhat during the first 3 weeks of February, a further advance is necessary if domestic consumption for the year ended July 31, 1938, is to exceed 6 million bales.

The annual rate of cotton mill consumption in foreign countries in the first 6 months of the season was somewhat less than the actual 1936-37 foreign mill consumption of raw cotton. The rate during the

past few weeks has been materially less than the average during the 6 months, August to January, and much less than actual consumption last season.

The supply situation has changed comparatively little during the past 4 or 5 weeks. While the estimated 1937-38 foreign production of commercial cotton has been reduced about 350,000 bales during this period, this is equal to less than 1 percent of the estimated world production. The recent passage of the Agricultural Adjustment Act of 1938, however, indicates a somewhat greater reduction in the 1938 domestic acreage than seemed likely under the earlier agricultural adjustment act. While the 1938 allotment under the new act tentatively estimated at about 26,400,000 acres is not greatly less than the acreage goals previously announced, it is generally agreed that the 1938 domestic acreage probably will be considerably smaller than would have been the case without the new act.

The passage of the new act partly accounts for the substantial advance in domestic cotton prices following the first week of February. This advance, which up to February 23 amounted to 3/4 cent per pound, resulted in the average price of Middling 7/8 inch cotton in the 10 designated markets reaching 9.34 cents per pound on February 23, the highest daily average since last September.

PRICES

Domestic prices strong during second and third weeks of February

Domestic prices of Middling 7/8 inch cotton in the 10 designated markets, after fluctuating between 8.45 and 8.67 cents per pound during the 4 weeks ended February 5, advanced to 9.34 cents on February 23. This was the highest daily average price for these markets since the latter part of September but was 3.47 cents less than on February 23, 1937.

The recent passage of the Agricultural Adjustment Act of 1938 partly accounted for the advance in prices during the second and third weeks of February. Exerting pressure on the downside was the continued unfavorable cotton textile situation both in the United States and in foreign countries.

Liverpool prices: American cotton low in relation to foreign

The recent advance in domestic cotton prices was accompanied by somewhat similar gains in the price of American cotton at Liverpool. Although the Liverpool price of a number of foreign growths also increased somewhat during the second and third weeks of February, the advance was relatively less than the increase in the price of American. As a result, the price of American increased slightly relative to the price of foreign growths, but remained more favorable for consumption of American than during any of the past 4 years.

On February 18 the average price of three types of Indian (Oomra, Broach, and Sind) averaged 85 percent of the average price of American Middling and Low Middling compared with 85.7 percent for the month of January and with approximately 80 percent for the 1935-36 and 1936-37 seasons. During the 5 years ended 1932-33 the price of these foreign growths averaged 76.9 percent of the price of American Middling and Low Middling. The price of Egyptian Uppers on February 18 was 25 percent higher than the price of American Middling 7/8 inch, whereas during 1936-37 Uppers averaged only 19 percent above American Middling and in the 5 years ended 1932-33 averaged 17.6 percent above. (For other comparisons, see table at end of this report.)

DEMAND AND CONSUMPTION

UNITED STATES: Textile situation unfavorable despite maintenance of retail sales

The domestic cotton textile situation continued very unfavorable during January and the first 3 weeks of February. On the whole, manufacturer's sales of cotton textiles apparently continued materially below the restricted output, despite the substantial volume of orders booked during the second week of January and the third week of February. Trade reports, however, indicate that retail sales of cotton textiles are continuing much above the reduced production of such goods and that supplies in channels of distribution are being reduced materially. This has been a favorable

factor in the situation. If it is true, as reported, that in a number of localities stocks of cotton goods are now at low levels, any significant improvement in the general business situation might result in a very material increase in manufacturers' sales and output of cotton textiles. Without a substantial increase in sales and production by manufacturers within the near future, domestic mill consumption during the 12 months ended July 31, 1938 probably will not exceed 6 million bales and might easily total less than this amount. Domestic consumption totaled 7,950,000 bales in 1936-37, 6,350,000 in 1935-36, and 5,360,000 bales in 1934-35.

During the first half of the current season (August 1 to January 31), domestic mills consumed a total of 3,085,000 bales or at an annual rate of 6,170,000 bales. Consumption of American cotton totaled 3,004,000 bales during this 6-month period which if equaled in the 6 months from February through July would give a total of 6 million bales for the 1937-38 season. In January and the first 3 weeks of February, however, the annual rate of domestic cotton consumption when adjusted for seasonal was materially below the average for the first 6 months of the season.

In January the index of domestic cotton consumption adjusted for seasonal variation was about the same as in December, as was actual consumption. However, the weekly index of domestic cotton mill activity released by the New York Times indicates that during the first 3 weeks of February domestic cotton consumption adjusted for seasonal averaged somewhat higher than in December and January, but much below the August-January average.

EUROPE: 1/ Depressed situation result of number of factors

The European cotton textile situation continued depressed during January and the first half of February. A reduced volume of new orders and restricted mill activity were reported from a number of countries, including the United Kingdom, France, Belgium, and the Danube area. Textile sales and mill activity in Germany continued rather high, within the limits of the improved raw material supply situation; much of this activity is based, however, as in Italy, on substitute raw materials. In Italy, declining export demand is causing some apprehension.

The recession in the European cotton industries during recent months is attributed to the general economic situation and other worldwide uncertainties. An improvement, or prospects for an improvement, in general business conditions during the next few weeks would probably result in an immediate favorable reaction upon the cotton industry.

United Kingdom.— During the second half of January and the first part of February, unfavorable factors dominated the Lancashire cotton situation. Cotton consumption has declined considerably as a result of a recession in general business conditions and the smaller exports and export orders for cotton textiles. British mills were considerably less active than in January and February last year.

1/ Based largely upon a report from the Office of the Agricultural Attaché, Berlin, dated February 3 and supplemented by cable on February 12.

Many looms were stopped by the shrinkage of order lists. Foreign inquiry for piece-goods, especially from India, broadened somewhat in January with firmer raw prices and lessened interest in Japanese goods, but in other quarters stocks of goods bought at higher prices were an impediment to new business. Some spinning mills were stopped during January, for a week at a time, while others worked on a short-time basis; all ring mills of the Lancashire Cotton Corporation were closed during the last week of the month. Press reports state that in a meeting held January 31 spinners of certain types of yarns agreed to curtail their output 50 percent during February to avoid further accumulation of yarn stocks.

American cotton continued to maintain a relatively favorable position on the British market. Imports of American from the first of the season to January 28 were 52 percent higher than a year ago, while imports of Egyptian were 23 percent less, Brazilian 36 percent less, and Indian 51 percent less. Stocks of American cotton in British ports on January 28 were considerably higher than at any time during the past 9 years, while stocks of Egyptian, Indian and Brazilian were less than a year earlier. The accumulation of port stocks of American cotton in Great Britain should be favorable to a relatively large share of American in total mill consumption. There have been some complaints, however, concerning the quality of American cotton - excessive moisture content - and it is said that much of the imported cotton has not yet been resold.

Germany. - The raw material supply situation in the German cotton spinning mills appears to have shown further improvement during the past few weeks. Retail sales of cotton textiles, however, continued high, with November values 21 percent above a year earlier and 55 percent above November 1933, therefore largely offset the effects of the increased raw material supply. From August through December net imports of all cotton spinning materials into Germany totaled 364,640,000 pounds compared with only 272,925,000 pounds in 1936, 335,540,000 pounds in 1935, 224,208,000 pounds in 1934, and 348,327,000 pounds in 1933. But the proportion of raw cotton in total imports of cotton, cotton waste and reclaimed cotton amounted to only 74 percent compared with 92 percent in the August-December period of 1933.

Supplies of cell-wool also have greatly increased compared with last year. German production in 1937 was about 224,370,000 pounds and is expected to be about 303,644,000 tons in 1938.

Czechoslovakia. - Declines in manufacturers' sales and in mill activity continued in Czechoslovakia during January and the first half of February. Both the decline in textile export business and the recession in the economic situation within Czechoslovakia are responsible for the present reduction in the volume of orders on hand. It is said that the severe decline in export sales of gloves to the United States in the last quarter of 1937 is viewed with much alarm. Almost 80 percent of the production of cotton gloves has hitherto been dependent on exportation to the United States.

Austria.- Declines in new business and mill activity have continued in Austria. Between the end of October and the end of January occupation in the cotton industry is said to have declined 10 percent. The decline is attributed in part to the export difficulties being encountered.

A recent demand by the spinning industry for an import tariff on cell-wool yarns seems to suggest that the Austrian mills are planning to manufacture such yarns. This would seem quite likely in view of Austria's abundant wool resources.

France.- Business in yarns and cloth from early January to mid-February remained uncertain in France and mill activity was restricted. Political uncertainties added to the caution under which buyers generally operated, though stable or even firmer raw cotton quotations made for more confidence in present values. A rather unsatisfactory industrial situation is reported from Alsace.

Belgium.- Short-time work in the Belgian cotton mills continued in January and the first half of February, and business is generally reported to have remained quiet.

Italy 2/.- Throughout December and January the Italian cotton textile industry appears to have maintained a comparatively high level of activity. Mills reached new high levels of occupation during October and apparently about maintained them during the three following months. The bulk of the activity and trade continued to be based on export orders; production for the domestic market was confined within narrow limits and forced the use of cotton substitutes of varying utility.

The outlook for the importation of cotton, particularly American, appears good for the next few months, if prices are not increased materially. The cotton industry for the month immediately ahead, however, appears uncertain in view of the declining export orders upon which manufacturers are so largely dependent. For some time foreign buyers have appeared less eager to place forward orders than they were last spring and early summer.

ORIENT: 3/ Situation Unfavorable Except in India

Japan.- Recent reports indicate that Japanese mill consumption of raw cotton declined considerably during January and the first two weeks of February. Because of increased production of cotton and staple-fiber mixed yarn, activity in Japanese mills apparently showed comparatively little change. It is reported that the Cotton Industry Control Committee is purchasing all cotton from merchants and allotting supplies of raw cotton to each mill, and that merchants no longer deal directly with individual mills.

2/ Based in part upon information supplied by the American Consulate, Milan, Italy.

3/ Based largely upon radiograms from Agricultural Commissioner G. L. Dawson, Shanghai, under dates of January 25, February 7, 12, 14 and 15, and from reports of the New York Cotton Exchange Service.

The output and distribution of yarn to merchants, as well as the type of raw material used for yarn, is also controlled by the Cotton Industry Control Committee. This committee announced that production of unmixed cotton yarns during February must be limited to 205,000 bales (of approximately 400 pounds) and that production of cotton staple-fiber-mixture yarns must be limited to approximately 80,000 bales. In comparison with the total yarn output for January, the scheduled production for February represents an increase of 5 percent. It is understood that the total scheduled production of yarn is equivalent to about 257,000 bales of unmixed cotton yarn which is only 2 percent less than the estimated output of such yarn during January, but 7 percent less than December. The percentage decline, in the equivalent unmixed cotton yarn production, apparently represents the approximate decline in cotton consumption. It is estimated that under the above regulations total cotton mill consumption in Japan during January was 17 percent less than the average for the first half of the current season.

Cotton cloth exports from Japan were maintained at a comparatively high level in the first 5 months of the current season. During recent weeks, however, they have apparently shown a substantial decline, and outstanding orders are believed to be very small. Furthermore, the indications are that sales during recent weeks have been quite small and unless there is a substantial increase in the near future, exports will show a very decided decline during the next few months. It is reported that the recent increases in cotton textile prices are causing great concern to the Japanese industry, since this is considered as being an important factor in sales to such markets as Malaya, the East Indies, and Africa.

The unfavorable situation with respect to textile exports, together with the increasing production of yarns containing various mixtures of staple fiber, point toward a further significant decline in cotton mill consumption in Japan. It has been suggested, however, that about 750,000 spindles or 19 percent of the approximately 4 million inactive spindles be put into operation in their present location instead of shipping these or other spindles to Tsingtao, China, to replace those destroyed by military activity (see description of the proposal in the following section pertaining to China). This number of spindles (750,000) is equal to approximately (6) percent of the total active spindles in Japan as of July 31, 1937, and are capable of consuming substantial quantities of cotton. Should this number of spindles operate at capacity during the remainder of the season to fill orders which might, without this arrangement be filled by mills located in China, it would materially affect the quantity of cotton consumed by mills in Japan. Another factor which may tend to prevent further substantial declines in cotton consumption during the next few months is the sharp reduction in North China tariff rates on cotton textiles brought about by the so-called provisional government. These reductions ranging from 34 to 56 percent should be of some benefit to Japanese exports of cotton textiles to China.

According to press reports, the establishment of a North China Raw Cotton Company has been proposed. This company would have its head office at Tientsin with branches in Osaka, Japan, and in leading towns in North China. The company would be controlled by Japanese and should facilitate the exports of Chinese cotton to Japan and should also be of some aid in the distribution of Chinese cotton to Japanese-owned mills in China.

China, including Manchuria.— It is estimated that in the first part of February cotton mill activity in China was slightly higher than a month earlier and perhaps the highest for several months. In Shanghai cotton mills apparently continued to operate at a little less than 20 percent of last year's activity, but the opening of some Japanese-owned mills in Shanghai was expected to increase activity somewhat. The Japanese-owned mills are particularly handicapped, however, by the labor situation and by restricted markets. The Chinese and British-owned mills in Shanghai, which were estimated to be operating about 400,000 spindles and at a rate about 27 percent as high as last year, are spinning low count yarns almost exclusively. The Japanese-owned mills, on the other hand, were spinning 20's to 60's count yarns which require somewhat better qualities of raw cotton than that being used by the Chinese and British-owned mills. Should these Japanese-owned mills, which in the middle of February were estimated to be operating about 9 percent as high as last year, continue at this level or expand their operations, a small demand for American cotton or cotton of somewhat similar quality may be expected.

In Tientsin, where mill activity in early January was estimated to have been nearly 40 percent as high as last year, operation in early February was estimated to have increased to nearly 90 percent of a year earlier. In Hankow, mill activity apparently continued about the same as a month earlier but somewhat below last year. In Manchuria, including Kwantung leased territory, activity was about the same as a year ago, whereas in other parts of China not previously mentioned, mills were estimated to have been running at a rate about one-eighth as high as in the early part of 1937. For China, as a whole, including Manchuria, activity in early February was estimated at about one-fourth as high as a year earlier and activity in all mills outside of Shanghai at about 32 percent of a year earlier.

It is reported that 11 cotton mills were destroyed in the occupation of Tsingtao by Japanese troops, total damage being estimated at 200,000,000 yen. Press reports indicate that the Japanese owners of these mills have petitioned the Japanese Government for their restoration. It has been suggested that new looms and spindles be purchased, or part of the 4 million idle spindles in Japan be sent to Tsingtao to replace those destroyed. Another suggestion includes a proposal which would enable Japanese mills to operate about 750,000 spindles of the large number of inactive spindles in their present location in Japan, instead of sending these or new spindles to Tsingtao.

India.— Mill consumption of raw cotton in India during the first 5 months of the current season was substantially (about 6 percent) higher than in any like period in history and exceeded that of August through December 1936-37 by 17 percent. In December and January Indian mills also continued at

or very near record levels. The expansion of mill consumption in India during recent years has been to a considerable extent at the expense of cotton textile imports from England and Japan. The current high level of consumption at a time when cotton mill activity in most other countries has been declining perhaps may be attributed largely to the Japanese situation.

SUPPLY

1937-38 world production and supply slightly reduced

Recent reports from Brazil and India have resulted in a reduction of 340,000 equivalent bales of 478 pounds in the estimate of the 1937-38 foreign and world production of commercial cotton, according to reports of the New York Cotton Exchange Service. This revision in the estimate of production in foreign countries resulted from a reduction in the estimated production of commercial cotton in India from 5,500,000 bales to 5,360,000 bales and a reduction in the estimate of the Brazilian commercial crop from 2,100,000 to 1,900,000 bales. These changes reduced the estimated total foreign production for the current season to 18,710,000 bales and the world commercial crop to 37,010,000 bales. The revision in the estimate of foreign production reduces the world supply of foreign cotton from 26,128,000 bales to 25,788,000 bales and the world supply of all cotton from 50,663,000 to 50,323,000 bales. These revisions reduce the estimates of total world production nine-tenths of 1 percent and the world supply of all cotton about seven-tenths of 1 percent.

1938 domestic acreage allotment tentatively at 26,400,000 bales

Under the provisions of the Agricultural Adjustment Act of 1938 the Secretary of Agriculture is directed to determine a national cotton acreage allotment which is to be divided among the cotton-growing States on the basis of the production in each State during the preceding 5 years, taking into account the acres diverted from cotton. This allotment in terms of acres for 1938 has been tentatively estimated at 26,400,000 acres. With average yields for the past 5 years, the national production allotment would be about 10,750,000 bales of 500 pounds gross weight.

Should the actual production be equivalent to the national allotment, the 1938 domestic crop would be approximately 8 million bales less than the estimate of the 1937 production. On the basis of present prospects with respect to world consumption of American cotton in the 1937-38 season, such a domestic crop, however, would probably result in a decline of 2 million bales and less than 8 percent in the world supply of American cotton in 1938-39 as compared with the supply for the current season.

The U.S.S.R.: 1938 acreage goal slightly less than that of 1937

This year's plan provides for 5,108,000 acres to be sown to cotton which is slightly less than provided last year (5,164,000 acres). The actual acreage sown in 1937 is not definitely known, but perhaps did not differ greatly from that provided for by the 1937 plan. Practically all of the cotton acreage falls

to the share of collectives, the 1938 plan providing for a total of 4,893,000 acres to be sown by them this spring, and 190,000 acres to be sown by the Soviet Farms, leaving the balance of 24,700 acres to the share of individual peasants.

Increased attention is at present being paid to the cultivation of alfalfa in the cotton regions. In view of the planned expansion under alfalfa it is reported that new areas will have to be brought into crop rotation if the above-mentioned planned figure of 5,108,000 acres for cotton is to be executed. No further increase in the cotton yield per acre is apparently envisaged for 1938 by the plan.

An early January report from Uzbekistan, the chief cotton producing area of Middle Asia, indicated preparations for the approaching spring campaign (which sets in very early there) to be very deficient. By the beginning of January only 18.3 percent of all tractors in need of overhauling had been repaired, whereby about one-fourth of the total number of Machine Tractor Stations of the Republic had not yet started repairs at all. Winter work necessary to ensure high yields has not been carried out to the extent provided for by the plan. Furthermore, shipment of artificial fertilizers has not been adequate.

Up to January 25, procurings from the 1937-38 crop were reported as 11,424 bales of unginned cotton equivalent to 3,541 bales of 478 pounds of lint, assuming lint represented an average of 31 percent. The reported procurings to January 25 this year represented an increase of 4 percent or about 120 bales of lint over those of a year earlier.

Cotton, specified growths, price per pound at Liverpool, specified periods

Year and month	American					Indian				
	: Mid- dling	: Low : Mid- : can : inch : inch	: Ameri- : & Low : Broach: : Mid. : : Mid.	: Oomra : Percent : : American: : : Mid.	: Sind	: Average of Broach, Oomra and Sind : Sind : : Actual: Amer. Mid. & : : Low Mid.				
	5-yr. av.	Cents	Cents	Cents	Cents	Cents	Percent	Cents	Cents	Percent
	1928-29 to:									
	1932-33 ...	13.49	12.63	13.06	10.88	10.30	76.4	8.93	10.04	76.9
1934-35 ...	14.24	13.49	13.86	11.52	10.78	75.8	7.75	10.02	72.3	
1935-36 ...	13.50	12.58	13.04	11.23	10.78	79.9	9.05	10.36	79.5	
1936-37 ...	14.62	13.16	13.89	11.75	10.87	74.4	10.60	11.07	79.8	
1937-38 :										
Aug.	12.21	10.67	11.44	10.38	9.51	77.9	9.49	9.79	85.7	
Sept.	11.06	9.51	10.28	9.22	8.46	76.5	8.54	8.74	85.1	
Oct.	9.99	8.44	9.22	7.99	7.74	77.5	7.78	7.84	85.2	
Nov.	9.56	7.99	8.78	7.81	7.68	80.3	7.70	7.73	87.9	
Dec.	9.95	8.39	9.17	8.06	7.93	79.7	8.08	8.02	87.3	
Jan.	10.29	8.71	9.50	8.33	8.06	78.3	8.06	8.15	85.7	
Feb. 4 ...	10.30	8.73	9.52	8.46	8.06	78.3	8.04	8.19	86.0	
11 ...	10.50	8.93	9.72	8.68	8.29	79.0	8.20	8.39	86.3	
18 ...	10.81	9.24	10.02	8.84	8.44	78.1	8.27	8.52	85.0	
	Egyptian					Brazilian				
	: Sakellaridis	F.G.F.	Uppers	F.G.F.		Sao Paulo		Tanguis		
	: Percentage		: Percentage			: Percentage		: Percentage		
	: Actual	: of Amer.	: Actual	: of Amer.		: Actual	: of Amer.	: Actual	: of Amer.	
	: Mic.		: Mid.			: Mid.		: Mid.		
5-yr. av.	Cents	Percent	Cents	Percent		Cents	Percent	Cents	Percent	
1928-29 to:										
1932-33 ...	21.43	158.9	15.86	117.6		13.08	97.0	16.01	118.7	
1934-35 ...	17.49	122.8	15.49	108.8		13.86	97.4	16.16	113.4	
1935-36 ...	18.99	140.6	15.49	114.8		13.45	99.8	15.74	116.6	
1936-37 ...	22.19	151.8	17.40	119.0		14.12	96.6	18.23	124.6	
1937-38 :										
Aug.	19.14	156.3	17.35	142.2		11.79	96.6	15.74	123.9	
Sept.	18.12	163.3	14.80	133.8		10.86	98.1	14.57	131.7	
Oct.	17.12	171.4	15.03	130.4		9.85	98.6	13.94	139.5	
Nov.	17.17	179.6	12.57	131.6		9.56	100.0	13.93	145.8	
Dec.	16.86	162.4	12.70	127.6		9.95	100.0	14.20	142.7	
Jan.	17.52	170.3	13.04	126.7		10.29	100.0	14.46	140.5	
Feb. 4 ...	17.33	168.7	12.93	125.5		10.80	100.0			
11 ...	17.30	164.8	12.97	123.5		10.50	100.0			
18 ...	17.87	165.3	13.47	121.6		10.81	100.0			

Computed from reports of the Liverpool Cotton Association. Seasonal averages (season beginning Aug. 1) based on monthly averages which are averages of Friday's prices. When Friday was a holiday the prices for the preceding business day were used. Prices were converted from pence to cents at current monthly rates of exchange as reported by the Federal Reserve Board.

(This table brings to date the table on page 17 of the 1938 Cotton Outlook Chart Book).

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